



EUROPEAN PAYMENTS COUNCIL
Towards our Single Payment Area

Doc EPC059_06
(Version 1.0)

31 March 2006
MvB/MR

How to make the „Single Euro Payments Area” a reality

EPC encourages public authorities to create the right environment for success



EUROPEAN BANKING FEDERATION



EUROPEAN SAVINGS BANKS GROUP



EUROPEAN ASSOCIATION OF
CO-OPERATIVE BANKS

EPC AISBL Secretariat – Avenue de Tervueren 12 (4th floor) · B - 1040 Brussels ·
Tel.: + 32 2 733 35 33 - Fax: + 32 2 736 49 88 - Enterprise N° 0873.268.927.
Website: [http:// www.europeanpaymentscouncil.org](http://www.europeanpaymentscouncil.org) secretariat@europeanpaymentscouncil.org

TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
1 INTRODUCTION TO THE EPC SEPA PROGRAMME	6
1.1 Background	6
1.2 The SEPA perimeters and deliverables	6
2 PROGRESS ON DELIVERABLES	7
2.1 Status of deliverables	7
2.2 Approach taken to include feedback from users on the schemes	8
2.2.1 Further work foreseen	8
2.2.2 E-businesses and e-invoicing	9
2.3 Open access to the schemes	10
2.4 Standards setting for the schemes	10
3 WHAT WILL THE EPC DELIVERABLES MEAN FOR USERS	11
3.1 The idea behind the schemes	11
3.2 What do the schemes and the framework mean in practice	12
4 CREATING THE RIGHT ENVIRONMENT FOR SUCCESS	13
4.1 Support for the SEPA perimeters as defined since 2004	13
4.2 Accept closure now on the content of the Credit Transfer and Direct Debit schemes and Cards framework to allow implementation preparation	14
4.3 Consistent and positive communication to promote SEPA implementation	14
4.4 Timely creation of the necessary legal framework	15
4.5 Public administrations as launching customers	15
4.6 Support for implementation	15
4.7 Provide for measures to support the repositioning of cash	16

Executive Summary

The banking industry supports the political and macro-economic objectives as identified by the public authorities with regard to the creation of the Single Euro Payments Area (SEPA). It would, however, expect the public authorities to foster an environment conducive to achieving SEPA. The public authorities¹ should do this through collaborative and coherent activities that are consistent with the nature and the scale of the task.

Responding to the objectives formulated under the Lisbon accord, the European Banking industry committed itself to develop a Single Euro Payments Area. With full support of the ECB and encouraged by the European Commission, it created the European Payments Council (EPC) to act as the decision-making body of the European banking industry designated to manage the SEPA programme. In 2004 EPC endorsed and made publicly available the EPC-Roadmap 2004 – 2010. The EPC-Roadmap defines the key deliverables to be met by the banking industry to make SEPA a reality as of January 2008.

In line with the primary deliverables spelled out in the EPC-Roadmap, the European banking industry finalised in March of 2006 a set of fully fit-for-purpose European payments schemes for core and basic services covering direct debits and credit transfers, a framework for card transactions and a framework for cash. Within an extremely short period of time, EPC thus developed solutions for the future European payments market.

The agreement of commonly applicable SEPA payment schemes represents a major achievement, particularly in view of the many and often mutually exclusive business practices, operating rules, legal environments and expectations of a broad range of users, i.e., *bank customers*. Each of these have been deeply engrained in vastly different payment landscapes and typically represent specific user perspectives and local idiosyncrasies.

No-one has a better understanding of customer expectations or a greater interest in providing competitive payment products than the representatives from more than 25 banking communities cooperating in the EPC. After all, thousands of bank-to-customer conversations regarding customer requirements and concerns take place every day. During the process of scheme design, these requirements were at the centre of all related debates. EPC accomplished the task of building consensus on those user requirements that can de facto be consolidated into one commonly agreed scheme.

As such, a significant part of user expectations identified during the design phase have either been already incorporated into the SEPA schemes adopted in March 2006 or will be met by an additional limited set of items that will be addressed later this year.

As concerns the issue of e-invoicing, EPC and the European Association of Corporate Treasurers (EACT) have agreed – as part of their ongoing dialogue - that it is not a payments matter per se and should not be brought inside the current SEPA programme. Indeed, EPC believes that EACT

¹ European Commission and Euro zone Ministries of Finance, ECB and Eurosystem

intends to scope and define e-invoicing as one of the top-priorities of its CAST (Corporate Action on Standards) project² with a view to presenting a proposal to the European Commission.

More-over, it should be pointed out that European Commission DG Enterprise is overseeing a project around the standardisation aspects of e-invoicing carried out by CEN/ISSS, which is scheduled to run until 2007.³ EPC fails to understand why public authorities would ask the banking industry to develop standards regarding electronic invoicing as part of the SEPA programme if related work is already being carried out based on an initiative of the European Commission with respect to a different legislative project.

EPC regards the SEPA programme to be a progressive and evolutionary process. The goal at hand is the consistent implementation of the current SEPA schemes approved by EPC in March 2006. These schemes provide a sound basis for the development of competitive bank products as well as the necessary flexibility to tailor those products to specific user needs. The banking industry is keen to start planning the changes to bank IT infrastructures to allow for new products to become available by 1 January 2008.

It is therefore imperative that the perimeters of the SEPA programme are not called into question at the eve of implementation. Indeed, in terms of positive incentives the banking industry considers that the SEPA programme would need support from the Commission in the following areas:

Support for the SEPA perimeters as defined since 2004

EPC asks that commonly agreed upon deliverables of the European banking industry with respect to the SEPA programme shall not be challenged in the middle of the process to the effect of possibly derailing the entire programme. This should include the governance of EPC, the decision making body driving the SEPA programme, which was endorsed by the ECB and continuously monitored by public authorities.

Accept closure now on the content of the Credit Transfer and Direct Debit schemes and SEPA Cards framework to allow implementation preparation

EPC asks public authorities to recognize the finality of SEPA schemes as approved by EPC in March 2006 taking into consideration the additional features to be addressed later this year. Finality of the schemes is imperative with regard to consistent and timely implementation of SEPA by 2008.

² EACT (European Association of Corporate Treasurers) plans to launch five projects on major issues that must be resolved if banks and corporates are to reap the benefits of the Financial Value Chain, dematerialization and STP. These projects are outside of SEPA's scope as defined at present.

The objective of CAST projects is to define "best practices" in these areas, identify business models and end-user requirements, compare proposed standards, look for interoperability of different solution. (Attachment to minutes of meeting EACT and EPC in January 2006).

³ CEN/ISSS (European Committee for Standards/Information Society Standardization System) provides market players with a comprehensive and integrated range of standardization services and products, in order to contribute to the success of the Information Society in Europe. (www.cenorm.be)

Consistent and positive communication to promote SEPA implementation

EPC asks that public authorities promote consistent messages designed to create the momentum and support necessary to drive forward the SEPA programme. Public support of EPC and national banking communities with respect to communication campaigns would be appreciated.

Timely creation of the necessary legal framework

EPC asks that the necessary European legislation be enacted in time for the planned launch of SEPA in 2008. Priority should be given to the harmonisation efforts actually required to facilitate the implementation of the SEPA Credit Transfer and Direct Debit scheme and to measures supporting the repositioning of cash.

Public administrations as launching customers

To boost initial demand for the SEPA schemes, EPC invites the Commission to look at means for public administrations to become launching customers and to publicly acknowledge that, from 1 January 2008 onwards, they will issue and accept SEPA scheme compliant payment instructions.

Support for implementation

The Commission should look at the impact of the new rules and standards for different user groups and at ways to facilitate the change-over to those new rules and standards. EPC would encourage the Commission to propose viable incentives to promote early adoption of the SEPA schemes by all stakeholders.

Provide for measures to support the repositioning of cash

The Commission could usefully encourage public administrations at increasing their use of electronic means of payments and enter into a dialogue with the banking industry on measures identified by EPC preventing the cost of cash to be transparent to customers.

1 Introduction to the EPC SEPA programme

1.1 Background

The introduction of Economic and Monetary Union and the euro laid the foundations for the development of an integrated European market for goods and services, and improved efficiency, concepts which have been enthusiastically re-affirmed in the Lisbon Accord of 2000. The European Commission and the European Central Bank considered the banking community as the industry responsible for the development and implementation of a common payments infrastructure, to which it committed.

Despite the fact that the cost of putting in place such an infrastructure will be huge (investment cost for banks alone were estimated to be \$10 - \$15 billion⁴ and the loss of revenue could be €13- €29 billion⁵), banks have recognised the political importance of the payments project. They reacted in spring 2002 with the publication of the White Paper “Euroland: our Single Payment Area” which described the required change programme as “the Single Euro Payments Area – SEPA”. Thus “SEPA” was born.

The EPC, a new self regulatory payments body, was established in June 2002 to design, specify and monitor the implementation of the SEPA. The governance structures of EPC, reviewed in 2004, were supported by the ECB, which has observer status in all EPC working groups and the Plenary. Monitoring of EPC work on a more political level takes place through the framework of the ECB Contact Group on Euro Payments Strategy which meets at least twice a year and involves the European Commission and representatives of the Eurosystem. In addition, quarterly briefing meetings are held with Commission representatives.

1.2 The SEPA perimeters and deliverables

EPC reviewed its initial White Paper for SEPA dated 2002 and transformed it into a Roadmap in 2004 to take into account observations from the European Central Bank and political and regulatory developments at the side of the European Commission.

This resulted in an update of the definition of SEPA as follows: “*SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.*” In addition, following the wish expressed by the European Central Bank seeking delivery of SEPA by 2008, the deadline of 1 of January 2008 was introduced.

Whilst the SEPA definition refers to Europe in its widest sense, SEPA will be delivered as a priority within the euro zone. Within Europe, outside the euro zone, there will be opportunities to participate in euro payment systems, and communities will be able to adopt SEPA standards and practices to

⁴ Boston Consulting Group (Payments Report 2004, 'Preparing for the Endgame')

⁵ 'World Payments Report 2005' Cap Gemini

contribute to the Single Market for payment services. The EPC key deliverables are driven by the Roadmap objectives and SEPA vision. Thus the focus is on delivering effective pan-European payment instruments, facilitated by the development of a SEPA scheme framework, and ultimately their adoption and implementation.

Primary Deliverables

The EPC's primary focus was to be on delivering by January 2008 SEPA payment schemes for credit transfers, direct debits and a framework for payments by card. These schemes and frameworks will create a set of core and fully fit-for-purpose pan-European payment instruments to be provided by banks to their consumer and corporate customers.

Secondly, EPC is to deliver a Framework for the Evolution of the Clearing and Settlement of Payments in SEPA, separating the governance and management of the SEPA payment schemes/frameworks from their operation by service providers and infrastructures, and thus allow for open competition and the creation of the necessary SEPA "reach".

Complementary Deliverables

The EPC is also to work on the framework for the creation of a single euro cash area and other card issues such as fraud prevention. There are also to be work streams examining opportunities for cooperation in both e-payments for web retailers and mobile payments.

2 Progress on deliverables

2.1 Status of deliverables

On 8 March 2006, EPC adopted version 2.0 of the rulebooks for the Credit Transfer and Direct Debit scheme and the data model required to support processing of payments under these schemes (based on UNIFI (ISO 20022) XML). Version 2.0 of the framework for Cards and the Cash framework were also approved. A policy framework for Pan European Clearing Houses and Clearing and Settlement Mechanisms was agreed as well.

With these decisions, the EPC has accomplished the vast and complicated task of developing – under enormous time pressure - pan European payment solutions that are workable for over 7.500 banks and provide the necessary flexibility to respond to the varying needs of 450 million citizens and of 20-25 million corporates of different sizes.

The decisions taken on 8 March 2006 were urgently awaited since in order for the schemes to be operational and the cards market to be adjusted by 1 January 2008, banks and users will have to start planning the changes necessary to their systems now. It must be clear which functionalities and operating rules will have to be supported before solid implementation plans can be developed and investments can be made.

2.2 Approach taken to include feedback from users on the schemes

No-one has a better understanding of customer expectations or a greater interest in providing competitive payment products than the representatives from more than 25 banking communities cooperating in the EPC. After all, thousands of bank-to-customer conversations regarding customer requirements and concerns take place every day. During the process of scheme design, these requirements were at the centre of all related debates.

Nevertheless, when the first versions of the rulebooks and Cards framework were considered stable enough, they were sent to national banking communities for a review from the perspective of business and customer requirements. During this phase, the payment industry engaged in a dialogue with a lot of different user groups as well as with payment infrastructures. Given that there are different categories of users (corporates, merchants, SMEs, consumers) originating from very different nationalities with long established payment habits, these discussions delivered a great variety of input. EPC then had the task to build consensus on those user requirements that could de facto be consolidated into commonly acceptable schemes and frameworks.

The agreement on commonly applicable SEPA payment schemes represents a major achievement particularly in light of the fact that EPC has been faced with the unique challenge to align countless, often mutually exclusive, expectations of a broad range of users, i.e., *bank customers*, so far rooted in vastly different payment landscapes and representing specific user perspectives. As such, requirements regarding the acceptable timeframe to initiate the revocation of a direct debit, to name just one example, differ widely between corporate and retail clients.

At the same time, the consultation process led EPC to draw a number of observations:

- Now that the SEPA programme has moved from the design phase to the implementation phase, communication around SEPA and its deliverables needs to be enhanced to clarify:
 - o That the schemes as developed by the EPC are not to be equated with the final product propositions that customers can expect as the latter will remain the responsibility of individual banks;
 - o That customer propositions will not degrade and product propositions will evolve with time in response to competition;
 - o That the schemes have been designed to be capable of evolution to permit the development of features and improvements to satisfy future needs;
 - o That the use of UNIFI (ISO 20022) XML standards would be recommended also for use in the customer- to-bank space.
- A limited amount of further work would be needed;
- There is a keen interest voiced by large corporates and EACT in particular to develop e-business and in particular e-invoicing at pan European level.

2.2.1 Further work foreseen

2.2.1.1 Credit Transfer

Structured remittance data

EPC has agreed to work together with EACT and with other interested parties on the preparation of a standardized remittance data field to aid reconciliation. Whilst the content of such a field is primarily a matter for commercial parties, the banking industry has a strong interest in deploying its proven standardization expertise in support of its customers and may also develop additional optional services on the basis of such standards. EPC will be looking into the possibilities offered by ISO 20022 in this respect.

2.2.1.2 Direct Debit

Building on the core scheme, the following additional requirements will be studied and appropriate recommendations presented to the Plenary later in 2006.

- An additional optional process for mandate submission through the Debtor Bank;
- Support for business-to-business direct debits;
- The inclusion of features such as electronic signature.

2.2.1.3 SEPA Cards Framework

- Further standardization of the whole process chain
- Monitoring of the different implementation options.

2.2.2 E-businesses and e-invoicing

We understand that there is a keen interest, from corporates in particular, to develop e-business. Several e-solutions have been mentioned, of which e-invoicing in particular has been retained by the European Commission and ECB.

Standardised electronic invoices could indeed offer significant advantage throughout the value chain. Yet obtaining agreement across industry sectors on the concrete business requirements for e-invoicing and the development of e-invoicing standards throughout Europe is complex and multifaceted. Many different factors would need to be considered, not least of all the difficulties of encouraging take-up, which itself would be dependent upon corporates, SMEs but also public administrations changing their individual business models to take advantage of the Single Market.

As part of their ongoing dialogue, EPC and the European Association of Corporate Treasurers (EACT) agreed that e-invoicing is not a payments matter per se and should not be brought inside the current SEPA programme. EPC believes that EACT intends to scope and define e-invoicing as one of the top-priorities of its CAST (Corporate Action on Standards) project⁶ with a view to presenting a proposal to the European Commission and ECB.

⁶ EACT (European Association of Corporate Treasurers) plans to launch five projects on major issues that must be resolved if banks and corporates are to reap the benefits of the Financial Value Chain, dematerialization and STP. These projects are outside of SEPA's scope and will involve a small group of banks and corporates. The objective of CAST projects is to define "best practices" in these areas, identify business models and end-user requirements, compare proposed standards, look for interoperability of different solution. (Attachment to minutes of meeting EACT and EPC in January 2006).

In addition, it should be pointed out that further to the publication of Council Directive 2001/115/EC of 20 December 2001 on the simplification, modernisation and harmonisation of the conditions laid down for invoicing, European Commission DG Enterprise has requested CEN/ISSS⁷ to provide an overview of the standardization aspects of electronic invoicing. The underlying project is foreseen to run until 2007. EPC fails to understand why public authorities would ask the banking industry to develop standards regarding electronic invoicing as part of the SEPA program if related work is already being carried out based on an initiative of the European Commission with respect to a different legislative project.

Finally, the successful introduction and use of standards for e-invoicing might require the development of uniform rules for the recognition of e-invoices from a tax point of view. Also, a more coherent implementation of the e-signature Directive would have to be ensured.

2.3 Open access to the schemes

When formulating the rulebooks, EPC carefully considered the Commission's view of the SEPA programme. EPC ensured that the Credit Transfer and Direct Debit schemes would not limit access to the schemes to credit institutions only. In particular, the rulebooks state that *"a Participant must at all times be active in the business of providing banking and/or payment services to customers, including the provision of accounts used for the execution of payments, holding the funds needed for the execution of payments or making the funds received following the execution of payments available to customers"*.

In terms of the further development of the schemes towards the future, EPC is presently looking into the best way to organise scheme management and is studying the models used in different Member States. Stakeholder involvement is an important aspect of this study.

2.4 Standards setting for the schemes

The establishment of effective and efficient technical standards to support the objectives of SEPA is crucial. So too is the fact that these standards must be integrated as part of a commercially viable proposition which unites clear business requirements with the appropriate technical standards. Successful standards are those which are widely adopted, achievement of which will only occur if they satisfy a clearly identified and defined business/commercial need.

The SEPA Data Model adopted by EPC defines a common set of data elements - to be used by participants in the scheme - that are aligned with those used in UNIFI (ISO 20022) XML messages.

ISO is an internationally recognised and respected standards body, and the standardisation processes it employs, offer significant synergies with SEPA, not least because it derives standards that offer interoperability on a global, not just European, level. ISO is also an open process with a

⁷ CEN/ISSS (European Committee for Standards/Information Society Standardization System) provides market players with a comprehensive and integrated range of standardization services and products, in order to contribute to the success of the Information Society in Europe. (www.cenorm.be)

recognized and accepted consultation process allowing any party, for example corporates/corporate associations and payment infrastructures, not just banks, to participate in a framework that is governed by fully documented and proven procedures⁸.

The SEPA standards setting process is best left to those parties with the requisite technical expertise. Clearly developing the standards as a foundation for SEPA is a significant technical undertaking. It is recognised that ISO20022 offers the most appropriate methodology to achieve this undertaking.

However, with regard to standards in the bank-to-customer sphere it needs to be emphasized that this sphere is part of the competitive space as opposed to the bank-to-bank sphere. EPC appreciates the fact that this distinction is recognized by the European Commission. Nevertheless, the schemes do look at ensuring the integrity of the information components flowing from the bank-to-bank through to the customer-to-bank space. In addition, EPC has recommended the use of the UNIFI (ISO 20022) XML standards in the customer-to-bank space by banks and customers in the interests of promoting SEPA's overall objectives.

3 What will the EPC deliverables mean for users

3.1 The idea behind the schemes

The SEPA schemes as designed by the EPC are aimed at ensuring that all scheme participants in Europe, whether they are in Belgium or in Finland, will be using the same standards and act under the same rules. They describe minimum service levels to be respected. The schemes do not prescribe the product offers that individual banks will deliver. This remains the choice of individual banks. Additional optional services can be developed based on the schemes. The SEPA schemes therefore will not lead to a deterioration of the customer propositions existing today. Rather the opposite, the scope of customer propositions will be greatly enhanced and will evolve with time in response to competition.

The SEPA payment instruments will have a decisive advantage over any existing national payment instrument: they will be usable all over Europe and guarantee to the payer and payee full reachability in a much larger market than any national market. As such, they will constitute the “**highest common numerator**” compared to the variety of features available based on the presently existing instruments.

⁸ ISO/IEC Directives, Part 1, Procedures for the technical work ISO/IEC; Part 2, Rules for the structure and drafting of International Standards (see www.iso.org/directives)

3.2 What do the schemes and the framework mean in practice

The new payment schemes for Direct Debit and Credit Transfer and the Cards Framework will result in many benefits for users.

In general, customers will be able to conduct retail and commercial business in different countries without the complexity, overhead and cost of having to establish unnecessary banking relationships. They will be able to conduct this business electronically, thus pushing credit payments where appropriate and capturing debit instructions to enable trade to take place.

For consumers, payment services across the SEPA will be more universal and predictable. From one account it will be possible to initiate a payment transaction that can reach any other account in SEPA. Spending on holiday will be easier, allowing payments by cards to displace cash for many purchases and improving customer safety and security.

Merchants will be able to accept payment cards from all SEPA countries, terminal costs should fall, acceptance and back office processes will be simplified.

For smaller businesses (SMEs), faster settlement and simplified processing will improve cash flow and reduce costs, as well as enabling receiving or making euro-payments anywhere in SEPA.

For large merchants and corporates, common standards will enable the construction of one standard platform for all their European payment operations; major savings will result from improved and simplified exception item processing, automated standing data set up and improved and guaranteed remittance data. One single pooled file to a common format can be used to receive and send payments to any nation.

For government and public administrations, SEPA will provide common schemes operating according to common standards, enabling the delivery of improved services to citizens at home and abroad.

Today	Tomorrow
<ul style="list-style-type: none"> • Payments often limited to home market only • Adjacent countries and on holiday: <ul style="list-style-type: none"> – National payment cards often not accepted by merchants – Over reliance on ATMs for cash – High cash holding - security concerns – Different experiences at terminals in different nations 	<ul style="list-style-type: none"> • Payments made from home bank to any of the 29 countries • Adjacent countries and on holiday: <ul style="list-style-type: none"> – Home payment card enabled for all SEPA zone merchants – Fewer visits to ATMs required – Increased card usage – lower cash in wallet – Common experience and processes at all terminals
<ul style="list-style-type: none"> • Under-utilised direct debit 	<ul style="list-style-type: none"> • Standard Direct Debit Rules for

Today	Tomorrow
<p>processes in some home markets. Different mandate set up and change processes</p> <ul style="list-style-type: none"> • In some markets consumers have a limited choice of banks from which to purchase payment facilities 	<p>all euro-zone countries. Common mandate process for set up of first payment and change</p> <ul style="list-style-type: none"> • Increased choice and ability to shop around for lowest cost or highest functionality accounts in EU countries

Finally, there is the overall benefit which results from the fact that banks will be operating their payment services based on the same standards and business rules. It will become much easier for a bank in a given country to start offering services in another country as the rules and standards used in that country will be the same. This will significantly increase competition between banks.

4 Creating the right environment for success

The scale of the SEPA programme is as significant if different in nature to that of the introduction of the Euro. Whilst the banking industry was asked to drive and finance its development, it cannot be denied that implementation of the SEPA schemes and framework by banks alone will not make SEPA a success. It is not after all a “simple” process of currency redenomination and amendment of processes. Rather, it is a redefinition of the market and change in payment rules, payment processing technology and in customers’ payment habits. It therefore needs a business and operational response by all stakeholders, including government agencies and acceptance by retail customers. But most of all, it needs public authorities to create the right environment for success by providing at a minimum the following stimuli for stakeholders to move to SEPA.

4.1 Support for the SEPA perimeters as defined since 2004

The implementation date of 1 January 2008 is approaching rapidly. Implementation on bank level must start now if this deadline is to be kept. Indeed, not only banks but also users will have to begin preparing for a change-over. It is therefore of paramount importance that users have a clear understanding of the perimeters of the project if they are to commit the required investment capital.

The SEPA programme has always been focused on payments. Its perimeters should not be extended, at the eve of implementation, to provide solutions in the e-business domain for which the primary business case and standardisation task lie with corporate customers. Further public debate on this matter should be moved to planning for a subsequent phase and the SEPA perimeters should openly be supported by public authorities in order to avoid confusion and doubt in the minds of the future users.

If it should be decided by the authorities, possibly by the end of the year 2006, that these perimeters, and hence the content of SEPA schemes, will have to be revisited, then timely implementation of SEPA according to a long-standing time-line will already have been compromised. It is difficult to expect any customer or provider to commit substantial capital or

effort to change their business processes or information processing whilst any significant uncertainty remains.

Support for the SEPA parameters should include the governance of EPC, as a decision making body driving the SEPA programme, which was endorsed by the ECB and continuously monitored by public authorities.

4.2 Accept closure now on the content of the Credit Transfer and Direct Debit schemes and Cards framework to allow implementation preparation

The banking community – through EPC – is working on the SEPA programme under a strict project management to maximise the efficient use of the 4 years that have been available to prepare for the 1 January 2008 deadline proposed by the European Central Bank. Timelines and deliverables were set very carefully to ensure that banks and users would be given enough time to prepare for implementation.

The Credit Transfer and Direct Debit rulebooks and the Cards framework were delivered on time with a first version available in September 2005. Consultations on Version 1.0 have taken place to ensure consistency of the content of the rulebooks with customer and business requirements. Corrections have been made to accommodate concerns expressed. Version 2.0 of the various documents was then adopted on 8 March 2006. This date was key as it was meant to close the specifications of the future schemes and the requirements of the Cards framework to allow IT and business transformation projects to start.

The best incentive to give to banks to ensure that they will move rapidly to implementation of SEPA is therefore to accept closure on the content of the Credit Transfer and Direct Debit schemes and the Cards framework as per the decisions of the 8 March 2006 Plenary taking into consideration the additional features to be addressed later this year.

4.3 Consistent and positive communication to promote SEPA implementation

EPC asks that public authorities communicate consistent and positive messages designed to create the momentum and support necessary to drive forward the SEPA programme. To promote readiness for SEPA it should be ensured that public authorities – in their communication - support the SEPA schemes developed by EPC and encourage timely adoption by all stakeholders.

EPC and national banking communities are currently designing comprehensive communication campaigns to advance SEPA implementation. EPC encourages public authorities to bolster these efforts by endorsing the SEPA solutions delivered by EPC. It would furthermore be of great benefit to the project if the communication material to be produced by EPC would be allowed to carry the EU logo.

The current climate of public criticism and exhortation is both confusing and discouraging to market participants. Also in this particular context, public authorities need to be mindful of their responsibility to make the SEPA programme succeed.

4.4 Timely creation of the necessary legal framework

EPC asks that the necessary European legislation will be completed in time with the planned launch of SEPA in 2008. As such, the European Commission's goal of creating a single, uniform legal proposal for payments within the EU single market which it seeks to achieve by means of its Proposal for a Payment Service Directive is generally to be welcomed. The timely creation of SEPA materially depends on the removal of legal obstacles at a national and European level.

However, the regulatory project presently on the table by far exceeds the scope required for SEPA. In the areas of credit transfers (EU Directive 97/5/EC on credit transfers) and card payments (cf. Commission Recommendation 97/489/EC concerning transactions by electronic payment instruments), there is already quite some relevant legislation available. For SEPA, the priority lies in developing legislation that describes a harmonised set of customer rights and obligations in the context of pan European direct debit and that allows for the account number to have primacy over name when crediting accounts. EPC therefore strongly endorses a limitation of the scope of this regulatory project to those matters that are really needed for an improvement of payment transactions in the EU's internal market. This would facilitate compliance with the timetable for the launch of the European direct debit scheme in the year 2008.

4.5 Public administrations as launching customers

To boost initial demand for the SEPA schemes, EPC invites the Commission to look at means for public administrations to become launching customers and to publicly acknowledge that, from 1 January 2008 onwards, they will issue and accept SEPA scheme compliant payment instructions. This idea is fully supported by the 4th Progress Report of the European Central Bank with respect to SEPA, which describes that public administrations as launching customers of the SEPA schemes would not only set a trend-setting example with respect to the adoption of SEPA, but would greatly contribute to generate the critical mass of transactions necessary to make SEPA a success. We would therefore strongly support efforts undertaken to put SEPA as an implementation project on the agenda of the ECOFIN Council.

4.6 Support for implementation

The Commission should look at the impact of the new rules and standards for different user groups and at ways to facilitate the change-over and adoption to those new rules and standards. Depending on the needs that different user groups have, measures to be considered could be:

- Making available a communications budget to raise awareness of SEPA and doing so by drawing on the channels being used by Member States' to communicate with their citizens;
- Making available a training budget for SEPA consultants to go out and inform consumers and SMEs (as was done for the introduction of the euro);
- Provide subsidies or lending facilities through the EIB for SMEs to finance the SEPA adjustments

4.7 Provide for measures to support the repositioning of cash

The results of the various studies that have been undertaken so far clearly show that non-cash payment instruments are more economical for society, that e-purse is always more economical for society than cash, or that cash is definitely the most expensive payment instrument to operate from a societal point of view (total costs consistently estimated around 0.4 to 0.6% GDP). The Commission should in this respect contemplate measures aimed at “repositioning” cash. Effective competition between the three pan-European payments instruments will materialize only if the Commission would usefully eliminate the barriers preventing the cost of cash to be transparent to customers. Today, the direct costing of payment services is often marred by other parameters, such as an interdiction of charging in certain countries for paper-based instruments, or an interdiction of remunerating current accounts. As the cost of cash is being imperfectly externalized to actual users, de facto usage of cash is therefore cross-subsidized by other bank revenues. This contributes to burdening the pricing of other bank services.

The Commission should:

- Encourage public administrations to make and receive all payments via electronic means and in particular, transfer social allowances via electronic means of payment instead of cash
- Encourage public administrations to adapt payment facilities for use of or consumption in public amenities (e.g. parking meters, vending machines) which are based non cash means of payments
- Encourage public authorities to participate, together with banks in the education of retailers and individual customers about the societal cost of cash, as well as the risks that cash handling involves (counterfeiting, robberies, loss etc.)
- Enter into a dialogue with the banking industry about legal/regulatory measures at the level of Member States that prevent the cost of cash to be transparent to customers. It should also consider addressing this matter at the level of the ECOFIN Council.
- Avoid further increasing the cost of cash by new regulations (e.g. in the field of cash transportation, or by piling up obligations and costs on providers of electronic means of payment thus further encouraging cash usage).